Webley Systems, Inc.

Statements of Operations

	Year ended December 31		Period from February 10, 1997 (inception) to December 31,
	1999	1998	1999
Revenues	$ 757,757	$ 119,998	$ 900,299
Cost of revenues	937,591	183,967	1,191,751
	(179,834)	(63,969)	(291,452)
Expenses:			
Sales and marketing	2,153,748	2,318,540	4,731,218
General and administrative	3,024,239	1,762,967	5,463,822
Research and development	2,198,805	457,708	2,924,290
Stock-based compensation	5,052,508	457,117	5,509,625
Depreciation and amortization	541,790	307,442	929,954
Operating loss	(13,150,924)	(5,367,743)	(19,850,361)
Interest and other income	254,949	53,263	308,676
Interest expense	(526,101)	(108,973)	(675,155)
Net loss	(13,422,076)	(5,423,453)	(20,216,840)
Accrued convertible preferred stock dividends	(656,222)	(127,611)	(783,833)
Net loss applicable to common stockholders	$(14,078,298)	$(5,551,064)	$(21,000,673)
Basic and diluted net loss per common share	$ (99.29)	$ (46.77)	$ (180.01)
Weighted average common shares outstanding	141,785	118,692	116,664

See accompanying notes.

Webley Systems, Inc.

Statements of Stockholders' Equity (Deficit)

	Series A Convertible Preferred Stock Shares	Series A Convertible Preferred Stock Amount	Series B Convertible Preferred Stock Shares	Series B Convertible Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Deferred Compensation	Accumulated Deficit during Development Stage	Total Stockholders' Equity (Deficit)
Issuance of common stock in initial capitalization	–	$ –	–	$ –	95,000	$ 95	$ 902	$ –	$ –	$ 997
Issuance of common stock	–	–	–	–	5,200	5	103,995	–	–	104,000
Net loss	–	–	–	–	–	–	–	–	(1,371,311)	(1,371,311)
Balance at December 31, 1997	–	–	–	–	100,200	100	104,897	–	(1,371,311)	(1,266,314)
Issuance of common stock upon conversion of unsecured convertible notes	–	–	–	–	40,397	41	948,253	–	–	948,294
Stock-based compensation	–	–	–	–	–	–	457,117	–	–	457,117
Issuance of Series A convertible preferred stock	94,423	94	–	–	–	–	6,009,930	–	–	6,010,024
Issuance costs of convertible preferred stock	–	–	–	–	–	–	(437,841)	–	–	(437,841)
Accrued series A preferred stock dividends	–	–	–	–	–	–	127,611	–	(127,611)	–
Net loss	–	–	–	–	–	–	–	–	(5,423,453)	(5,423,453)
Balance at December 31, 1998	94,423	94	–	–	140,597	141	7,209,967	–	(6,922,375)	287,827
Exercise of stock options	–	–	–	–	3,142	3	199,997	–	–	200,000
Issuance of Series A convertible preferred stock, for consulting services	157	–	–	–	–	–	10,000	–	–	10,000
Deferred compensation on granted stock options	–	–	–	–	–	–	11,457,181	(11,457,181)	–	–
Stock-based compensation	–	–	–	–	–	–	–	5,052,508	–	5,052,508
Issuance of Series B convertible preferred stock	–	–	84,374	84	–	–	16,499,916	–	–	16,500,000
Issuance of convertible Series B preferred stock, upon conversion of unsecured notes	–	–	10,316	10	–	–	2,018,202	–	–	2,018,212
Issuance costs of Series B convertible preferred stock	–	–	–	–	–	–	(218,352)	–	–	(218,352)
Issuance of detachable stock warrants	–	–	–	–	–	–	372,801	–	–	372,801
Accrued Series A & B convertible preferred stock dividends	–	–	–	–	–	–	656,222	–	(656,222)	–
Net loss	–	–	–	–	–	–	–	–	(13,422,076)	(13,422,076)
Balance at December 31, 1999	94,580	$94	94,690	$94	143,739	$144	$38,205,934	$ (6,404,673)	$ (21,000,673)	$ 10,800,920

See accompanying notes.

Webley Systems, Inc.

Statements of Cash Flows

	Year ended December 31 1999	1998	Period from February 10, 1997 (inception) to December 31, 1999
Operating activities			
Net loss	$(13,422,076)	$(5,423,453)	$(20,216,840)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	541,790	307,442	929,954
Stock-based compensation	5,052,508	457,117	5,509,625
Interest expense on unsecured convertible notes	77,212	29,526	125,506
Interest expense on unsecured convertible notes in connection with detachable stock warrants	372,801	–	372,801
Changes in operating assets and liabilities:			
Accounts receivable, net	(74,631)	(13,404)	(89,162)
Prepaid expenses and other assets	(106,938)	(70,490)	(209,743)
Accounts payable	(299,515)	926,547	719,450
Accrued expenses and other current liabilities	355,668	144,387	591,922
Due to affiliates	2,866	103,508	710,597
Net cash used in operating activities	(7,500,315)	(3,538,820)	(11,555,890)
Investing activity – Purchases of property and equipment	(1,901,968)	(1,401,287)	(3,532,497)
Financing activities			
Line of credit advances	–	927,288	927,288
Pay-off of line of credit	(927,288)	–	(927,288)
Payment of capital lease obligation	(102,263)	(91,162)	(252,425)
Proceeds from sale of unsecured convertible notes	1,941,000	200,000	2,841,000
Proceeds from sale of Series A Convertible Preferred Stock, net	–	5,572,183	5,572,183
Proceeds from sale of Series B Convertible Preferred Stock, net	16,281,648	–	16,281,648
Proceeds from issuance of common stock	–	–	104,997
Proceeds from exercised stock options	200,000	–	200,000
Net cash provided by financing activities	17,393,097	6,608,309	24,747,403
Net increase in cash and cash equivalents	7,990,814	1,668,202	9,659,016
Cash and cash equivalents at beginning of year	1,668,202	–	–
Cash and cash equivalents at end of year	$ 9,659,016	$ 1,668,202	$ 9,659,016

See accompanying notes.

Webley Systems, Inc.

Notes to Financial Statements

December 31, 1999 and 1998

1. Organization and Business Activity

Webley Systems, Inc. (the Company) was incorporated as an Illinois corporation on February 10, 1997, and reincorporated as a Delaware corporation on June 8, 1998. The Company provides unified messaging communications services, which consist of the integration of information, telecommunications and Internet services. The Company delivers its services through its advanced computer telephony platform that integrates digital switching technology with enhanced personal communications features such as interactive, speech-activated, directional management of inbound and outbound calls, email, fax, voicemail, conference calling and call answering, initiating, identification, screening, holding, and returning. The Company is in the development stage and, at December 31, 1999, had not yet generated substantial recurring revenue from operations.

2. Summary of Significant Accounting Principles

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Business Risks and Credit Concentration

The Company's operations are subject to significant risks and uncertainties including competitive, financial, developmental, operational, technological, regulatory, and other risks associated with an emerging business.

The Company is dependent upon a small number of telecommunications and Internet service providers.

The Company maintains cash and cash equivalents with various financial institutions. These financial institutions are located in the United States, and the Company's policy is designed to limit exposure to any one institution. The Company's periodic evaluations of the relative credit standing of these financial institutions are considered in the Company's investment strategy.

Fair Value of Financial Instruments

The fair value of the Company's financial instruments approximate their carrying value, principally because of the short maturity of these items.

Cash Equivalents

The Company considers all highly liquid investments purchased with maturity dates of three months or less at the time of purchase to be cash equivalents.

2. Summary of Significant Accounting Principles (continued)

Property and Equipment

Property and equipment are recorded at cost. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the assets, generally three to ten years. Amortization of assets recorded under capital lease and leasehold improvements are calculated on the straight-line basis over the shorter of the lease term or the estimated useful life of the respective asset, and are included in depreciation and amortization expense on the accompanying statements of operations.

The Company capitalizes externally purchased software and amortizes it over three years which is included in depreciation and amortization expense on the accompanying statements of operations. Effective January 1, 1998, the Company adopted the provisions of the American Institute of Certified Public Accountants' Statement of Position 98-1 (SOP 98-1), Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. SOP 98-1 requires the capitalization of certain internally generated software costs. Such software is also amortized over three years.

Long-Lived Assets

The Company assesses potential impairments to its long-lived assets when there is evidence that events or changes in circumstances have made recovery of the asset's carrying value unlikely. An impairment loss would be recognized when the sum of the expected future undiscounted net cash flows is less than the carrying amount of the asset. Should an impairment exist, the impairment loss would be measured based on the excess of the carrying amount of the asset over the asset's fair value or discounted estimates of future cash flows. The Company has identified no such impairment losses.

Income Taxes

The Company accounts for income taxes in accordance with the asset and liability method. Deferred tax assets and liabilities are recognized for tax consequences in future years for differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The provision for income taxes includes the current tax provision and the change during the year in the net deferred tax liability or asset. A valuation allowance is provided to reduce the deferred tax asset to a level, which more likely than not, will be realized.

Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the fee is fixed and determinable and collectibility is probable. The Company offers contracts for services rendered in which monthly fees are paid in advance and usage is paid in arrears. Deferred revenue is recognized on the advance payments and amortized as the services are provided, which has been included in accrued expenses and other current liabilities in the accompanying balance sheets. Initial set-up costs are inconsequential and are expensed as incurred.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs for the years ended December 31, 1999 and 1998, and for the period February 10, 1997 (inception) to December 31, 1999 were $99,778, $932,379 and $1,076,743, respectively.

2. Summary of Significant Accounting Principles (continued)

Net Loss Per Share

In accordance with Statement of Financial Accounting Standards (SFAS) No. 128, Earnings Per Share, the Company's basic and diluted net loss per share is calculated by dividing the net loss, after consideration of preferred stock dividends, by the weighted average number of shares of common stock outstanding during all periods presented.

The Company has excluded all convertible preferred stock, outstanding stock purchase warrants and outstanding stock options from the calculation of diluted net loss per common share because the effect of including these instruments in the computation would be anti-dilutive for the periods presented. Equivalent common stock shares for these instruments are as follows:

	December 31	
	1999	1998
Convertible preferred stock	189,270	94,423
Outstanding stock purchase warrants	9,144	–
Outstanding stock options	141,331	55,227
	339,745	149,650

Stock-Based Compensation

SFAS No. 123, Accounting for Stock-Based Compensation, establishes a fair-value method of accounting for employee stock options and similar equity instruments. The fair-value method requires compensation costs to be measured at the grant date based on the value of the award and is recognized over the service period. SFAS No. 123 generally allows companies to either account for stock-based compensation under the provisions of SFAS No. 123 or under the provisions of Accounting Principles Board (APB) No. 25, Accounting for Stock Issued to Employees. The Company has elected generally to account for its stock-based compensation in accordance with the provision of APB No. 25 and present pro forma disclosures of net income as if the fair-value method had been adopted. Stock options granted to non-employees are accounted in accordance with the provisions of SFAS No. 123 and EITF 98-16, Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services.

Comprehensive Income

SFAS No. 130, Comprehensive Income, establishes standards for the display of comprehensive income and its components. There was no difference between the Company's net loss and its comprehensive net loss for the years ended December 31, 1999 and 1998 and for the period February 10, 1997 (inception) to December 31, 1999.

2. Summary of Significant Accounting Principles (continued)

Stock-Based Compensation

SFAS No. 123, Accounting for Stock-Based Compensation, establishes a fair-value method of accounting for employee stock options and similar equity instruments. The fair-value method requires compensation costs to be measured at the grant date based on the value of the award and is recognized over the service period. SFAS No. 123 generally allows companies to either account for stock-based compensation under the provisions of SFAS No. 123 or under the provisions of Accounting Principles Board (APB) No. 25, Accounting for Stock Issued to Employees. The Company has elected generally to account for its stock-based compensation in accordance with the provision of APB No. 25 and present pro forma disclosures of net income as if the fair-value method had been adopted. Stock options granted to non-employees are accounted in accordance with the provisions of SFAS No. 123 and EITF 98-16, Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services.

Comprehensive Income

SFAS No. 130, Comprehensive Income, establishes standards for the display of comprehensive income and its components. There was no difference between the Company's net loss and its comprehensive net loss for the years ended December 31, 1999 and 1998 and for the period February 10, 1997 (inception) to December 31, 1999.

Business Segments

SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information, requires companies to report segment information consistent with the way management internally utilizes information to assess performance and allocate resources. Management believes the Company's operations comprise only one segment.

Reclassifications

Certain amounts in the prior period's financial statements have been reclassified to conform to the current period's financial statement presentations.

3. Impact of Recently Issued Accounting Standards

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. The Company is required to adopt SFAS No. 133 for the year ending December 31, 2001. SFAS No. 133 establishes methods of accounting for derivative financial instruments and hedging activities related to those instruments. Because the Company currently holds no derivative instruments and does not engage in hedging activities, the Company expects that the adoption of SFAS No. 133 will have no material impact on the Company's financial position or results of operations.

In December 1999, the Securities and Exchange Commission issued SAB 101, which summarizes certain of the staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. The effective date of SAB 101 for the Company is for the year ending December 31, 2001. The application of SAB 101 did not have a material impact on the Company's financial position or results of operations.

In March 2000, the FASB issued Interpretation No. 44 (FIN 44), Accounting for Certain Transactions Involving Stock Compensation--an Interpretation of APB Opinion No. 25. FIN 44 clarifies the application of APB Opinion No. 25 and among other issues clarifies the following: the definition of an employee for purposes of applying APB Opinion No. 25; the criteria for determining whether a plan qualifies as a non-compensatory plan; the accounting consequence of various modifications to the terms of the previously fixed stock options or awards; and the accounting for an exchange of stock compensation awards in a business combination. FIN 44 is effective July 1, 2000, but certain conclusions in FIN 44 cover specific events that occurred after either December 15, 1999 or January 12, 2000. The application of FIN 44 did not have a material impact on the Company's financial position or results of operations.

4. Related Party Transactions

The Company and Vail Systems, Inc. (Vail), a stockholder of the Company, have entered into a license agreement, pursuant to which Vail has granted the Company a perpetual, worldwide, exclusive, irrevocable license to use, develop, modify, enhance, adapt, copy and sub-license certain Vail technology for the purpose of the Company's business. The Company has no additional liability related to this license agreement.

The Company and Vail are parties to an equipment and management services agreement, pursuant to which Vail has agreed to provide the Company engineering, marketing, equipment, and telecommunications services. The Company is required to reimburse Vail for these goods and services plus an allocation for related employee benefits and taxes. During the years ended December 31, 1999 and 1998 and during the period February 10, 1997 (inception) to December 31, 1999, the Company incurred expenses of $381,406, $1,022,282 and $1,945,313, respectively, related to services Vail provided to the Company under this agreement. Also related to this agreement, the Company assumed all obligations and liabilities of Vail under a capital lease agreement between Vail and LINC Capital Management. Substantially all of the computer telephony hardware utilized in, or related to, the Company's platform is leased under this agreement. The term of the equipment and management services agreement is one year, which automatically renews for successive like periods, subject to the right of either party to terminate the agreement at any time upon 90 days advance notice. At December 31, 1999 and 1998, the Company had accounts payable to Vail for $645,657 and $634,233, respectively.

The Company has entered into multiple consulting agreements with a member of its Board of Directors. The independent contractor agreement was renewed on July 1, 1999 and terminates on June 30, 2000. During the years ended December 31, 1999 and 1998 and during the period February 10, 1997 (inception) to December 31, 1999, the Company incurred $396,437, $866,289 and $1,262,726, respectively. These expenses were recognized for: acting as the Company's Chief Executive Officer, a preferred stock finder's fee, stock-based compensation expense in connection with stock options granted, and sales and marketing consulting services. At December 31, 1999 and 1998, the Company was liable to this related party for $64,940 and $73,498, respectively.

5. Property and Equipment

Property and equipment are summarized as follows:

	December 31 1999	1998
Computer and telecommunications equipment	$3,029,757	$1,451,520
Furniture and fixtures	76,851	65,164
Software	531,475	359,068
Office equipment	31,243	24,002
Leasehold improvements	76,943	14,597
	3,746,269	1,914,351
Less: accumulated depreciation and amortization	(929,954)	(388,164)
	$2,816,315	$1,526,187

Software includes $145,687 of internally developed software costs at December 31, 1999 and 1998. Accumulated amortization of internally developed software costs was $97,124 and $48,562 at December 31, 1999 and 1998, respectively.

6. Unsecured Convertible Notes and Stock Purchase Warrants

On March 12, 1997, the Company's Board of Directors authorized the issuance of unsecured convertible notes up to an amount of $1,000,000. The convertible notes bore simple interest at 6% per annum, payable upon the anniversary of issuance and upon maturity on December 31, 1999.

The Company issued $700,000 of unsecured convertible notes in June 1997 with a conversion price of $20.00 per common share. The Company issued an additional $200,000 of unsecured convertible notes in February 1998 with a conversion price of $63.65 per common share. Related to the February 1998 issuance, the Company granted 3,142 stock options with an exercise price of $63.65 per common share. All unsecured convertible notes and related accrued interest were converted to 40,397 shares of common stock in July 1998. No interest payments were made during the period that the unsecured convertible notes were outstanding.

On April 13, 1999, the Company issued unsecured convertible notes to eight individuals for $1,941,000, with a conversion price of $63.65. The unsecured convertible notes bore simple interest at 1% per month. One of the individuals is on the Company's Board of Directors and is therefore an affiliate of the Company. Principal and accrued interest was payable in full on demand at September 13, 1999. Note holders also received 9,144 detachable stock purchase warrants, with an exercise price of $63.65 per share. On August 13, 1999, the notes, including accrued interest were converted into 10,316 shares of Series B Convertible Preferred Stock valued at $195.56 per share.

Stock purchase warrants issued in connection with the April 13, 1999 unsecured convertible notes have been valued at $372,801 using the Black-Scholes pricing model and have been recorded as debt discount, which was amortized over the term of the related notes. The following assumptions were utilized in the valuation of warrants: dividend yield of 0%, risk free interest rate of 6.44%, an expected life of four years and an expected volatility of 82.5%. The warrants are vested and exercisable into shares of Series B Convertible Preferred Stock and all warrants were outstanding at December 31, 1999.

7. Line of Credit

In August 1998, the Company entered into a line of credit agreement with a bank. Under the line of credit the Company could borrow up to $1,000,000 in aggregate. In August 1999, the line of credit was paid-off and closed, with no additional costs to the Company. The line of credit bore interest at prime plus 1.50%, which ranged from 9.25% to 11.00%. The line of credit was secured by substantially all of the assets of the Company. At December 31, 1999 and 1998, the Company had $0 and $927,288 outstanding under the line of credit, respectively. Cash paid for interest during the years ended December 31, 1999 and 1998 and during the period February 10, 1997 (inception) to December 31, 1999 was $65,134, $75,397 and $1,012,911, respectively.

8. Lease Commitments

The Company leases certain computer and telecommunications equipment under agreements which have been accounted for as capital leases. The related equipment has a cost of $301,558 at December 31, 1999 and 1998. Accumulated amortization of the equipment was $270,336 and $169,817 at December 31, 1999 and 1998, respectively.

The Company has several non-cancelable operating leases for office space which expire on various dates through 2004.

Rental expense for the years ended December 31, 1999 and 1998 and during the period February 10, 1997 (inception) to December 31, 1999 was $257,385, $134,305 and $403,773, respectively. On January 1, 1999, the Company entered into a non-cancelable sublease agreement at one of its facilities. The sublease has provided the Company with income of $39,375 for the year ended December 31, 1999, which has been recorded as a reduction of rental expense. The Company anticipates that $143,244 of the future minimum operating lease payments will be recovered under this agreement. Minimum future lease payments under operating leases together with the present value of the net minimum lease payments under capital leases at December 31, 1999 are summarized as follows:

	Capital Leases	Operating Leases
2000	$ 32,108	$ 497,742
2001	–	516,046
2002	–	495,709
2003	–	361,067
2004 and thereafter	–	371,913
Total minimum lease payments	32,108	$2,242,477
Less amount representing interest	(711)	
Present value of net minimum lease payments	$ 31,397	

9. Income Taxes

There has been no provision of U.S. Federal or state income taxes for any period as the Company has incurred operating losses during all periods.

The effective income tax rate differs from the U.S. federal statutory rate as follows:

	Year ended December 31	
	1999	1998
Income tax benefit	34.0%	34.0%
State tax	4.8%	4.8%
Change in valuation allowance	(38.8)%	(38.8)%
Income tax provision	–	–

Significant components of deferred tax assets are as follows:

	December 31	
	1999	1998
Net operating loss carryforwards	$ 5,886,000	$ 2,398,000
Stock-based compensation	1,978,000	177,000
Other	(54,000)	32,000
Valuation allowance	(7,810,000)	(2,607,000)
Net deferred tax asset	$ –	$ –

At December 31, 1999, the Company had net operating loss carryforwards for federal income tax purposes of approximately $15,163,450, which expire in the years 2017 through 2019. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some or all of the deferred tax asset will not be realized. The ultimate realization of the deferred tax asset is dependent upon the generation of future taxable income during the periods in which the net operating loss carryforwards are available. Management considers projected future taxable income, the scheduled reversal of deferred tax liabilities and available tax planning strategies that can be implemented by the Company in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the net operating loss carryforwards are available to reduce income taxes payable, management has established a full valuation allowance. The net change in the valuation allowance during the year ended December 31, 1999 was an increase of $5,203,030.

10. Supplemental Cash Flow Information

The following summarizes non-cash investing and financing activities:

	Year ended December 31 1999	Year ended December 31 1998	Period from February 10, 1997 (inception) to December 31, 1999
Assets recorded under capital lease	$ –	$ –	$ 283,822
Return of unpaid equipment	70,050	–	70,050
Issuance of common stock upon conversion of unsecured convertible notes	–	948,294	948,294
Fair value of detachable stock warrants in connection with the issuance of unsecured convertible notes	372,801	–	372,801
Deferred compensation on granted stock options	11,457,181	–	11,457,181
Issuance of Series A convertible preferred stock for consulting services	10,000	–	10,000
Issuance of convertible Series B preferred stock upon conversion of unsecured notes	2,018,212	–	2,018,212
Accrued Series A & B convertible preferred stock dividends	656,222	127,611	783,833

11. Convertible Preferred Stock

On July 29, 1998, the Company's Board of Directors authorized and issued 94,423 shares of Series A convertible preferred stock, for $63.65 per share. On August 13, 1999, the Company's Board of Directors authorized and issued an additional 157 shares of Series A convertible preferred stock, for $63.65 per share.

On August 13, 1999, the Company's Board of Directors authorized and issued 84,374 shares of Series B convertible preferred stock, for $195.56 per share, and issued 10,316 shares upon conversion of unsecured convertible notes (See Note 6).

Each share of the preferred stock is convertible, at the option of the holder, into one share of common stock. The conversion price of the preferred stock will be subject to an adjustment to reflect stock dividends, stock combinations, or stock splits. Automatic conversion will occur upon the earlier of a majority vote of holders of the preferred stock then outstanding or upon the closing of an initial public offering of common stock in which the aggregate proceeds exceed $15,000,000.

The holders of Series A and Series B preferred stock shall be entitled to receive cumulative quarterly dividends in cash or in kind at the rate of $3.1825 and $9.778 per share, respectively. Such dividends shall be payable when and as declared by the Company's Board of Directors and shall cumulate to the extent not declared and set apart for payment or paid. At December 31, 1999 and 1998, no dividend payments have been declared on the preferred stock, resulting in $783,833 and $127,611 respectively, of cumulative dividends in arrears.

Preferred stockholders are entitled to receive, upon a liquidating event, an amount per share equal to the issuance price, plus all accrued or declared but unpaid dividends. Thereafter, the remaining assets of the Company will be distributed ratably to the holders of common stock. Each holder of preferred stock has voting rights equal to common stock on an "as-if-converted" basis.

12. Common Stock

The Company's Board of Directors has authorized the Company to issue 1,000,000 shares of $.001 par value common stock.

On March 12, 1997, the Company issued 95,000 shares of common stock at $.0105 per share in the Company's initial capitalization. On December 31, 1997, the Company issued 5,200 shares of common stock in a private stock offering at $20.00 per share.

On August 19, 1998, the Company issued 40,397 shares of common stock upon conversion of unsecured convertible notes. See Note 6 for conversion prices.

On August 18, 1999, a member of the Board of Directors exercised his common stock options to purchase 3,142 shares of the Company's common stock for $200,000.

13. Stock Options

The Company grants stock options under the 1999 Stock Option Plan to selected employees and non-employees of the Company as approved by the Board of Directors. The aggregate number of shares available for grants at December 31, 1999 were 163,385. Stock options generally vest over a three-year period and are exercisable over a ten-year period from the original grant date. All vesting is subject to acceleration under a change of control. During 1998, vesting of options granted to certain employees were accelerated due to provisions of the stock option agreements.

A summary of stock option information follows:

	1999		1998	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of year	55,227	$ 39.87	38,000	$38.95
Granted	94,343	$130.12	33,227	$40.98
Exercised	(3,142)	$ 63.65	–	$ –
Forfeited	(5,097)	$100.50	(16,000)	$40.00
Outstanding at end of year	141,331	$ 97.40	55,227	$39.87
Exercisable at end of year	62,466	$ 59.10	55,227	$39.87

Prior to the formalization of the 1999 Stock Option Plan, the Company granted 82,316 of the total outstanding stock options at December 31, 1999. Employees were granted 7,986 options under the 1999 Stock Option Plan. Non-employees were granted 51,029 options, of which 1,279 options were granted under the 1999 Stock Option Plan.

13. Stock Options (continued)

The Company has granted certain options with exercise prices that differ from the fair market value of the Company's common stock on the grant date. The weighted-average fair value of these options are summarized as follows:

	1999			1998		
	Options Granted	Weighted Average Exercise Price	Weighted-Average Fair Value	Options Granted	Weighted Average Exercise Price	Weighted-Average Fair Value
Less than fair market value	46,804	$ 63.65	$ 176.49	2,085	$ 20.00	$ 58.14
Equal to fair market value	47,539	$ 195.56	$ 164.16	28,000	$ 40.00	$ 31.17
Exceeding fair market value	–	$ –	$ –	3,142	$ 63.65	$ 31.33
	94,343	$ 130.12	$ 170.27	33,227	$ 40.98	$ 34.56

Options outstanding and exercisable at December 31, 1999, by price range:

	Outstanding			Exercisable	
Exercise Prices	Shares	Weighted-Average Remaining Life in Years	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
$ 20.00	4,085	8.18	$ 20.00	4,085	$ 20.00
$ 40.00	48,000	5.70	$ 40.00	48,000	$ 40.00
$ 63.65	43,131	9.59	$ 63.65	2,577	$ 63.65
$195.56	46,115	9.79	$195.56	7,804	$195.56
	141,331	8.29	$ 97.40	62,466	$ 59.10

The Company recognized $5,052,508, $457,117, and $5,509,625 of stock-based compensation expense for the years ended December 31, 1999 and 1998 and during the period February 10, 1997 (inception) to December 31, 1999, respectively. The stock-based compensation expense resulted from options granted to non-employees, certain options granted to employees at an exercise price below the fair market value of the Company's common stock and certain options accounted for as variable due to the terms of the 1999 Stock Option Plan. For the year ended December 31, 1999 stock-based compensation expense also resulted from the modification of two options to extend the exercise period. At December 31, 1999 and 1998, the Company had $6,404,673 and $0 of deferred compensation expense related to stock options.

13. Stock Options (continued)

Stock purchase warrants issued in connection with the convertible notes have been valued at $372,801 using the Black-Scholes pricing model and have been recorded as debt discount, which was amortized over the term of the related notes. The following assumptions were utilized in the valuation of warrants: dividend yield of 0%, risk free interest rate of 6.44% an expected life of four years and an expected volatility of 82.5%. The warrants are vested and exercisable into shares of Series B Convertible Preferred Stock and all warrants were outstanding at December 31, 1999.

To value option grants in accordance with SFAS No. 123, the Company used the Black-Scholes pricing model. The following assumptions were utilized in the valuation of options granted in 1999 and 1998:

	1999	1998
Risk-free interest rate	6.44%	6.29%
Expected dividend yield	0%	0%
Expected life of options	9 years	7 years
Expected volatility	82.5%	95.0%

Had compensation expense for the Company's stock options been determined based on the fair value at the grant dates, the Company's net loss would have been as follows on a pro-forma basis:

	Year ended December 31		Period from February 10, 1997 (inception) to December 31,
	1999	1998	1999
Net loss applicable to common stockholders	$(14,835,827)	$(6,062,524)	$(22,366,804)
Basic and diluted net loss per common share	$ (104.64)	$ (51.08)	$ (191.72)

These pro forma amounts may not be representative of future disclosures because the estimated fair value of stock options is amortized to expense over the vesting period, and additional options may be granted in future years.

14. Subsequent Events

On April 5, 2000, the Company's Board of Directors authorized and issued 81,817 additional shares of Series B convertible preferred stock, for $195.56 per share, or $16,000,000. The Series B convertible preferred stock has the same preferences as described in Note 11.

On December 1, 2000, the Company entered into an additional facilities lease commitment. The lease expires on November 30, 2010 and the aggregate future minimum lease payments under this lease total $5,807,332.

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APPENDIX:

FINANCIAL ASSUMPTIONS AND PROJECTIONS

SUMMARY OF PROJECTIONS ASSUMPTIONS

Introduction

The following projections (the "Projections") were not prepared with a view toward compliance with published guidelines of the American Institute of Certified Public Accountants or Generally Accepted Accounting Principles ("GAAP") and have not been examined, reviewed or compiled by the Company's independent certified public accountants. The projections represent management's estimates of the Company results of operations for the years ending December 31, 2001 through December 31, 2003 based on certain assumptions, which are summarized below. The Company's management believes that the assumptions are reasonable, based on information available to date, as well as its business judgment.

The projections should be read in conjunction with information contained under the captions "Executive Summary—Summary Historical and Projected Financial Information," "Company Overview" and "Risk Factors." The Company does not intend to update or otherwise revise the Projections to reflect circumstances existing after the date hereof or to reflect the occurrence of unanticipated events, even in the event that any or all of the underlying assumptions are shown to be in error. Furthermore, the Company does not intend to update or revise the Projections to reflect changes in general economic or industry conditions.

Projected Results of Operations for 2001 – 2003

Basis of Presentation

The Projections are presented on a pro forma basis reflecting the combined results of operations of the Company and two pending acquisitions - EffectNet, Inc. and BuzMe.com, Inc. - as of January 1, 2001. (See "Recent Transactions") These two acquisitions will be accounted for under the purchase method of accounting for business combinations and actual results of operations will be recorded from the effective date of each acquisition, respectively. The Company estimates that under the above mentioned accounting treatment and assuming an effective date of June 30, 2001 for the acquisitions, revenues will be approximately $37.7 million for 2001 and the net loss will be approximately $21.0 million, versus the results presented herein. Costs of each acquisition in excess of the net amounts assigned to identifiable assets acquired and liabilities assumed, referred to as goodwill, is amortized in the Projections over 5 years. The accounting treatment of goodwill acquired in a business combination is currently the subject of FASB Exposure Draft, dated September 7, 1999 (as revised February 14, 2000), Proposed Statement of Financial Accounting Standards, Business Combinations and Intangible Assets—Accounting for Goodwill. Additionally, the projections reflect the net proceeds of the proposed Series C offering as of June 30, 2001.

Revenues

Revenues are derived from four product categories—(i) virtual assistant solutions, including limited feature and functionality customizations, (ii) enhanced speech recognition voicemail and voice portal solutions with limited but distinctly differentiating feature sets and Unified Communications functionality, (iii) telephony extensions to Internet-based communications, including email by phone and Internet Call Waiting applications, and (iv) enhanced conferencing and PIM (Personal Information Management) calling solutions supported by the Webley communications platform. The Company's products are offered on a private label or Webley branded basis, depending on the distribution channel. The following table sets forth projected subscribers and revenues by product type for 2001 to 2003.

	2001E		2002E		2003E	
	Users	Revenue	Users	Revenue	Users	Revenues
Product Types						
Virtual Assistant	350,434	$36,433,581	1,000,568	$193,085,632	1,987,804	$431,419,328
Voicemail / Portal	112,102	$1,983,898	438,574	$19,318,724	1,019,405	$50,435,773
Email / ICW / ISP	88,525	$1,559,226	175,439	$2,781,189	361,018	$4,398,719
Conf / PIM Calling	3,843	$123,525	20,873	$1,923,978	40,846	$4,641,538
Total	554,904	$40,100,230	1,635,454	$217,109,523	3,409,073	$490,895,358

	2001E		2002E		2003E	
	Users	Revenue	Users	Revenue	Users	Revenue
Product Types						
Virtual Assistant	63.2%	90.9%	61.2%	88.9%	58.3%	87.9%
Voicemail / Portal	20.2%	4.9%	26.8%	8.9%	29.9%	10.3%
Email / ICW / ISP	16.0%	3.9%	10.7%	1.3%	10.6%	0.9%
Conf / PIM Calling	0.7%	0.3%	1.3%	0.9%	1.2%	0.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The Company's product categories are marketed and sold through a variety of distribution channels, grouped into the following classifications:

- **Carriers** — including, principally, IXCs, ILECs, CLECs, wireless, cable, DSL, IP network providers and consumer VoIP providers; principally sell Virtual Assistant and some Voicemail / Portal
- **Infrastructure** — including PBX and traditional switch manufacturers and resellers; Virtual Assistant
- **ISPs** — ISP hosted communications solutions and content portals; email / ICW / ISP
- **ASP/Hosting** — including messaging ASPs, Exchange hosting providers, outsourced officing solutions and Web/email hosting providers; Virtual Assistant
- **Groups** — associations and affiliations, including major multi-level marketing organizations; Virtual Assistant
- **Direct Sales** — Company branded local access markets for SOHO and small to medium sized businesses, toll free products for communication intensive, remote users and specialized vertical markets, such as medical, legal and real estate; Virtual Assistant
- **Mass Markets** — Company branded SOHO and residential accessed through varying online, print media, cable and "Friends & Family" styled affinity marketing techniques; Voicemail / Portal, Conference calling / PIM Calling.

The following table sets forth projected subscribers and revenue by distribution channels for 2001—2003.

	2001E		2002E		2003E	
	Users	Revenue	Users	Revenue	Users	Revenue
Channels						
Carriers	188,013	$11,538,442	653,985	$90,399,789	1,077,159	$160,723,737
Infrastructure	7,422	$450,398	13,747	$2,925,547	11,846	$2,926,447
ISPs	72,162	$1,492,289	136,435	$2,431,537	304,782	$3,813,995
ASP/Hosting	48,502	$3,801,335	105,094	$19,583,393	203,182	$36,750,559
Groups	167,572	$17,924,502	312,234	$50,969,634	484,214	$80,336,620
Direct Sales	10,622	$3,387,050	117,332	$33,416,488	565,198	$158,758,851
Mass Market	60,610	$1,506,214	296,629	$17,383,136	762,691	$47,585,149
Total	554,903	$40,100,230	1,635,456	$217,109,524	3,409,072	$490,895,358
Channels						
Carriers	33.9%	28.8%	40.0%	41.6%	31.6%	32.7%
Infrastructure	1.3%	1.1%	0.8%	1.3%	0.3%	0.6%
ISPs	13.0%	3.7%	8.3%	1.1%	8.9%	0.8%
ASP/Hosting	8.7%	9.5%	6.4%	9.0%	6.0%	7.5%
Groups	30.2%	44.7%	19.1%	23.5%	14.2%	16.4%
Direct Sales	1.9%	8.4%	7.2%	15.4%	16.6%	32.3%
Mass Market	10.9%	3.8%	18.1%	8.0%	22.4%	9.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The Company's revenue is based on fixed monthly subscriber fees and usage charges, generally on a per minute charge. Monthly fees and per minute charges vary according to the distribution channel (retail, wholesale or licensing) and by product type. The end user charge is generally estimated to be $20 to $40 per month for a virtual assistant product, $6 to $13 per month for an enhanced voicemail product, $3 to $4 dollars for HearMyMail email by phone and Internet Call Waiting (ICW) services and 11 cents or less per minute for conference calling. Other service revenue is projected for specialized features and functionality such as concierge live services that are outsourced on an as demanded basis. The following table sets forth projected revenue by type of fees and charges.

	2001E Revenue	2002E Revenue	2003E Revenue
Fixed monthly fees	25,759,514	128,306,030	301,160,241
Usage Charges	14,029,536	83,987,040	168,429,366
Other Services	311,181	4,816,452	21,305,750
Total Revenue	40,100,231	217,109,522	490,895,357
Fixed monthly fees	64.2%	59.1%	61.3%
Usage Charges	35.0%	38.7%	34.3%
Other Services	0.8%	2.2%	4.3%
Total Revenue	100.0%	100.0%	100.0%

Over the projection period, fixed monthly fees are projected to decline by 13%, including 8% from 2001 to 2002 and a further 5% from 2002 to 2003, and per minute usage charges are projected to decline by 25%, including 20% from 2001 to 2002 and another 5% from 2002 to 2003. Revenues generally reflect monthly churn rates of approximately 2.25% of the preceding month's user base.

Cost of Revenues. Costs of revenues include direct costs, principally variable per minute telecom expenses, or per minute costs, telecom fixed costs, principally co-location and fixed line charges, and outside services and agent commissions. Agent commissions directly relate to direct sales of local access services to consumer and SOHO markets. Cost of revenues is expected to decline in 2002 as the Company is able to negotiate more favorable volume-based telecommunications charges and deploy least-cost-routing applications. Cost of revenues increases as a percentage of revenues in 2003 as usage revenue rates decline faster than underlying telecommunications costs. The following table sets forth the breakdown of these expenses as a percentage of total revenue.

	2001E	2002E	2003E
Telecom Variable Costs	20%	20%	19%
Telecom Fixed Costs	11%	7%	7%
Outside Services/Commissions	2%	5%	10%
Total Cost of Revenues	33%	32%	36%

Sales and Marketing. Sales and marketing expenses include all costs directly related to payroll, taxes, benefits and other directly related personnel costs such as travel and entertainment. Other expenses include fulfillment materials, market research reports and focus groups, trade shows, sales collateral and miscellaneous expenses. In addition, the internal sales and mass marketing costs of the direct sales of local access services are charged to this group. The following table sets forth the breakdown of these expenses as a percentage of total revenue.

	2001E	2002E	2003E
Payroll Expenses	6%	2%	1%
Other Directly Related	1%	3%	4%
Direct Sales/Mass Mkt.			
Payroll Expenses	3%	2%	2%
Marketing & Other	14%	5%	5%
Total Sales & Marketing	24%	12%	12%

General and Administrative. General and administrative expenses include network and co-location costs, payroll and related expenses for administrative/operations and customer care groups, collections and bad debt allowances, occupancy and other general support costs. In 2002 and 2003, a reserve equal to 10% of General & administrative expenses was used. As a percentage of Total Revenue, these components of General and Administrative expenses are as follows:

	2001E	2002E	2003E
Payroll Expenses			
Administrative/Operations	15%	3%	2%
Customer Care	17%	4%	2%
Collections and Bad Debts	1%	1%	1%
Occupancy Costs	7%	1%	1%
EffectNet/BuzMe.com Baselines	2%	1%	-
G&A Reserve		1%	1%
Other	4%	2%	1%
Total G&A	46%	13%	8%

Research and Development. This category includes primarily payroll and related expenses for engineering and innovation. Research and Development is funded through a top down reserve in 2002 and 2003. The following table sets forth the breakdown of these expenses as a percentage of total revenue.

	2001E	2002E	2003E
Payroll expenses	16.9%	5.0%	3.3%
Licenses and Scripts	0.3%	0.1%	0.0%
Equipment	0.5%	0.1%	0.1%
Subtotal Engineering	17.7%	5.2%	3.4%
R&D Allocation	0.0%	6.9%	11.3%
Total Engineering/R&D	17.7%	12.1%	14.7%

The Company expects to devote substantial resources to engineering and research and development and that these expenses will continue to increase.

Depreciation and Amortization. Depreciation and amortization are provided on a straight-line method over the estimated useful lives of the assets and have been reviewed by the Company's auditors. For purposes of this presentation, the Company has assumed 3 years, 5 years and 5 years for depreciation and amortization of software, hardware and goodwill, respectively. The following table delineates the breakdown of depreciation and amortization costs for the period of projections presented:

($ in millions)	2001E	2002E	2003E
Hardware	$2.0	$6.6	$13.7
Software	0.4	1.9	4.5
Goodwill	17.5	17.5	17.5
Total Depreciation and Amortization	$19.9	$26.0	$35.7

Interest and other income (expense). Interest income is derived from the investment of convertible preferred stock proceeds in 2001 and 2002. Surplus operating cash flow creates larger interest income amounts in 2003.

Capital Expenditures. Capital expenditures are projected to be $18.1, $38.1 and $63.7 million in 2001, 2002 and 2003, respectively. Platform capacity requirements represent most of the planned capital costs and include equipment and hardware expenditures of $14.8, $30.7 and $51.9 million as well as software expenditures of $3.3, $7.4, and $11.8 million, respectively. Also included are personnel and occupancy related capital costs. Platform costs include the next generation of SIP-enabled platform design and implementation and its deployment into production as SIP-enabled media gateways are adopted by large-scale network providers.

Pro Forma Projected Financial Statements

The Projections are shown on a pro forma basis to include the potential acquisitions of EffectNet and BuzMe.com. (See "Recent Transactions") as of January 1, 2000. Additionally, the projections reflect the net proceeds of the Series C offering as of June 30, 2001.

Pro Forma Income Statement Projections

(Dollars in thousands)

	Projected Year Ended December 31, 2001E					Projected Year Ended December 31, 2002E					Projected Year Ended
	Mar. 31	June 30	Sept. 30	Dec. 31	Total	Mar. 31	June 30	Sept. 30	Dec. 31	Total	Dec. 31, 2003E
Revenue:											
Subscriber fee revenue	$ 1,176	$ 2,828	$ 6,711	$ 15,044	$ 25,760	$ 20,923	$ 27,702	$ 35,853	$ 43,827	$ 128,306	$ 301,160
Usage fee revenue	268	1,182	3,582	8,997	14,030	13,276	18,626	23,327	28,757	83,987	168,429
Other revenue	-	-	64	248	311	654	1,037	1,395	1,729	4,816	21,306
Total revenue	1,445	4,010	10,357	24,289	40,100	34,854	47,366	60,575	74,314	217,110	490,895
Cost of revenue	1,281	2,067	3,945	7,626	14,919	12,091	14,938	19,223	23,740	69,993	176,343
Gross profit	164	1,943	6,412	16,663	25,181	22,763	32,428	41,352	50,574	147,117	314,552
Gross margin	*11%*	*48%*	*62%*	*69%*	*63%*	*65%*	*68%*	*68%*	*68%*	*68%*	*64%*
Operating expenses:											
Sales and marketing	712	663	4,224	4,013	9,611	3,734	7,696	7,303	7,633	26,365	59,026
General and administrative	3,861	4,288	4,973	5,094	18,216	8,541	9,870	11,276	12,709	42,395	92,442
Research and development	1,501	1,627	1,906	2,071	7,104	2,421	2,690	2,998	3,266	11,375	16,616
Stock-based compensation	1,378	1,378	1,378	1,378	5,511	1,066	1,066	1,066	1,066	4,265	1,263
Depreciation and amortization	4,648	4,802	5,028	5,405	19,883	5,831	6,255	6,706	7,185	25,977	35,732
Total operating expenses	12,099	12,757	17,508	17,960	60,324	21,592	27,577	29,349	31,860	110,378	205,079
Operating (loss) profit	(11,935)	(10,814)	(11,096)	(1,297)	(35,143)	1,171	4,850	12,003	18,714	36,738	109,473
Operating margin	*NM*	*NM*	*NM*	*NM*	*NM*	*3%*	*10%*	*20%*	*25%*	*17%*	*22%*
Interest and other income	77	28	271	198	573	186	192	253	343	974	2,246
Interest expense	-	-	-	-	-	-	-	-	-	-	-
Pretax (loss) income	(11,858)	(10,787)	(10,825)	(1,100)	(34,570)	1,357	5,042	12,256	19,057	37,712	111,719
Provision for income taxes	-	-	-	-	-	-	-	666	9,796	10,462	52,179
Net (loss) income	$ (11,858)	$ (10,787)	$ (10,825)	$ (1,100)	$ (34,570)	$ 1,357	$ 5,042	$ 11,590	$ 9,261	$ 27,251	$ 59,540
Net income margin	*NM*	*NM*	*NM*	*NM*	*NM*	*4%*	*11%*	*19%*	*12%*	*13%*	*12%*
Accrued convertible preferred stock dividends	(784)	(784)	(1,284)	(1,284)	(4,136)	(1,284)	(1,284)	(1,284)	(1,284)	(5,136)	(5,136)
Net (loss) income applicable to common stockholders	$ (12,642)	$ (11,571)	$ (12,109)	$ (2,384)	$ (38,706)	$ 73	$ 3,758	$ 10,306	$ 7,977	$ 22,115	$ 54,404
EBITDA	(5,910)	(4,634)	(4,690)	5,485	(9,750)	8,068	12,172	19,775	26,965	66,981	146,468
EBITDA margin	*NM*	*NM*	*NM*	*23%*	*NM*	*23%*	*26%*	*33%*	*36%*	*31%*	*30%*

Source: Company

Note: Projected financials for 2001, 2002, and 2003 are presented pro forma for the acquisitions of EffectNet and BuzMe.com as of January 1, 2001. Additionally, the projections assume a June 30, 2001 closing on the proposed Series C financing, net of fees and expenses.

Pro Forma Balance Sheet Projections

(Dollars in thousands)

	Projected Year Ended December 31, 2001E					Projected Year Ended December 31, 2002E					Projected Year Ended Dec. 31, 2003E
	Mar. 31	June 30	Sept. 30	Dec. 31	Total	Mar. 31	June 30	Sept. 30	Dec. 31	Total	
Assets											
Current assets:											
Cash and cash equivalents	$ 4,970	$ 29,512	$ 21,495	$ 18,524	$ 18,524	$ 18,470	$ 22,198	$ 32,903	$ 39,913	$ 39,913	$ 85,444
Accounts receivable	100	577	1,571	3,675	3,675	5,085	6,795	8,596	10,102	10,102	18,291
Other assets	274	274	274	274	274	274	274	274	274	274	274
Total current assets	5,343	30,362	23,339	22,473	22,473	23,829	29,266	41,773	50,288	50,288	104,009
Property and equipment, net	4,227	7,557	11,959	20,026	20,026	27,949	35,000	43,536	49,603	49,603	95,003
Goodwill	82,964	78,597	74,231	69,864	69,864	65,498	61,131	56,765	52,398	52,398	34,932
Other assets	910	910	910	910	910	910	910	910	910	910	910
Total assets	$ 93,445	$ 117,427	$ 110,439	$ 113,274	$ 113,274	$ 118,186	$ 126,308	$ 142,984	$ 153,200	$ 153,200	$ 234,855
Liabilities and stockholders' equity (deficit)											
Current liabilities:											
Accounts payable	$ 2,518	$ 3,840	$ 6,061	$ 8,509	$ 8,509	$ 10,889	$ 12,736	$ 16,598	$ 16,404	$ 16,404	$ 36,598
Due to affiliate	-	-	-	-	-	-	-	-	-	-	-
Accrued liabilities	1,762	1,781	2,020	2,128	2,128	2,236	2,403	2,560	2,643	2,643	3,301
Unearned Revenue	486	486	486	486	486	486	486	486	486	486	486
Customer deposits	200	200	200	200	200	200	200	200	200	200	200
Current portion of capital lease obligation	40	40	40	40	40	40	40	40	40	40	40
Current portion of notes payable	686	686	686	686	686	686	686	686	686	686	686
Total current liabilities	5,692	7,032	9,493	12,049	12,049	14,537	16,551	20,570	20,459	20,459	41,311
Long term liabilities	437	437	437	437	437	437	437	437	437	437	437
Stockholders' equity (deficit):											
[1] Common stock, $0.001 par value; 1,000,000 shares authorized, 95,000 shares issued and outstanding	0	0	0	0	0	0	0	0	0	0	0
Series A preferred stock, $63.65 per share; 94,423 shares authorized, 94,423 shares issued and outstanding	0	0	0	0	0	0	0	0	0	0	0
Series B preferred stock, $195.56 per share; 94,690 shares authorized, 94,690 shares issued and outstanding	0	0	0	0	0	0	0	0	0	0	0
Series C preferred stock, $____ per share; ____ shares authorized, ____ shares issued and outstanding	-	32,050	32,050	32,050	32,050	32,050	32,050	32,050	32,050	32,050	32,050
Series D preferred stock, $____ per share; ____ shares authorized, ____ shares issued and outstanding	9,690	9,690	9,690	9,690	9,690	9,690	9,690	9,690	9,690	9,690	9,690
Series E preferred stock, $195.56 per share; ____ shares authorized, ____ shares issued and outstanding	13,000	13,000	13,000	13,000	13,000	13,000	13,000	13,000	13,000	13,000	13,000
Additional paid-in-capital	138,675	139,459	140,743	142,027	142,027	143,311	144,595	145,879	147,163	147,163	152,299
Deferred compensation	(10,018)	(8,640)	(7,262)	(5,885)	(5,885)	(4,818)	(3,752)	(2,686)	(1,620)	(1,620)	(357)
Accumulated deficit during development stage	(64,031)	(75,602)	(87,711)	(90,095)	(90,095)	(90,022)	(86,263)	(75,957)	(67,980)	(67,980)	(13,576)
Total stockholders' equity (deficit)	87,316	109,957	100,509	100,787	100,787	103,211	109,320	121,976	132,303	132,303	193,106
Total liabilities and stockholders' equity (deficit)	$ 93,445	$ 117,427	$ 110,439	$ 113,274	$ 113,274	$ 118,186	$ 126,308	$ 142,984	$ 153,200	$ 153,200	$ 234,855

Source: Company
Note: Projected financials for 2001, 2002, and 2003 are presented pro forma for the acquisitions of EffectNet and BuzMe.com as of January 1, 2001. Additionally, the projections assume a June 30, 2001 closing on the proposed Series C financing, net of fees and expenses.

Pro Forma Cash Flow Statement Projections

(Dollars in thousands)

	Projected Year Ended December 31, 2001E					Projected Year Ended December 31, 2002E					Projected Year Ended
	Mar. 31	June 30	Sept. 30	Dec. 31	Total	Mar. 31	June 30	Sept. 30	Dec. 31	Total	Dec. 31, 2003E
Cash flows from operating activities:											
Net loss	$ (11,858)	$ (10,787)	$ (10,825)	$ (1,100)	$ (34,570)	$ 1,357	$ 5,042	$ 11,590	$ 9,261	$ 27,251	$ 59,540
Reconciliation of net loss to net cash used in operating activities:											
Depreciation and amortization	281	436	662	1,038	2,417	1,464	1,889	2,339	2,819	8,511	18,266
Goodwill Pre-acquisition adjustments	4,367	4,367	4,367	4,367	17,466	4,367	4,367	4,367	4,367	17,466	17,466
Deferred Compensation	1,378	1,378	1,378	1,378	5,511	1,066	1,066	1,066	1,066	4,265	1,263
Changes in items affecting operations:											
Receivables and prepaid expenses	446	(477)	(994)	(2,105)	(3,130)	(1,410)	(1,710)	(1,801)	(1,506)	(6,426)	(8,189)
Accounts payable	120	1,322	2,221	2,448	6,111	2,381	1,847	3,862	(193)	7,896	20,194
Due to affiliates	(13)	-	-	-	(13)	-	-	-	-	-	-
Prepaid expenses and Other	341	19	239	109	707	107	167	157	82	514	659
Net cash provided by (used) in operating activities	(4,938)	(3,743)	(2,953)	6,134	(5,500)	9,333	12,668	21,580	15,896	59,477	109,197
Cash flows from investing activities:											
Purchases of property and equipment	(186)	(3,765)	(5,064)	(9,105)	(18,120)	(9,387)	(8,940)	(10,875)	(8,886)	(38,088)	(63,666)
Net cash provided by (used in) investing activities	(186)	(3,765)	(5,064)	(9,105)	(18,120)	(9,387)	(8,940)	(10,875)	(8,886)	(38,088)	(63,666)
Cash flows from financing activities:											
Repayment of capital lease obligations	-	-	-	-	-	-	-	-	-	-	-
Issuance of Series B Preferred Stock net of costs	-	-	-	-	-	-	-	-	-	-	-
Issuance of Series C Preferred Stock net of costs	-	32,050	-	-	32,050	-	-	-	-	-	-
EffectNet/Buzme.com acquisition	61	-	-	-	61	-	-	-	-	-	-
Issuance of Pre-Acquisition Buzme.com Equity	1,000	-	-	-	1,000	-	-	-	-	-	-
Issuance of Pre-Acquisition EffectNet Equity	1,250	-	-	-	1,250	-	-	-	-	-	-
Net cash provided by financing activities	2,311	32,050	-	-	34,361	-	-	-	-	-	-
Net increase (decrease) in cash and cash equivalents	(2,813)	24,542	(8,017)	(2,971)	10,741	(54)	3,728	10,705	7,010	21,389	45,531
Cash and cash equivalents at beginning of year	7,783	4,970	29,512	21,495	7,783	18,524	18,470	22,198	32,903	18,524	39,913
Cash and cash equivalents at end of year	$ 4,970	$ 29,512	$ 21,495	$ 18,524	$ 18,524	$ 18,470	$ 22,198	$ 32,903	$ 39,913	$ 39,913	$ 85,444

Source: Company
Note: Projected financials for 2001, 2002, and 2003 are presented pro forma for the acquisitions of EffectNet and BuzMe.com as of January 1, 2001. Additionally, the projections assume a June 30, 2001 closing on the proposed Series C financing, net of fees and expenses.